Human Resources
Ask SCORE

Need an Affordable Health Care Option? Consider an HSA

According to the National Federation of Independent Business (NFIB), health-insurance premiums have increased 87 percent in the past six years. This is enough to cause any small business owner much concern. Because of the continued escalation, small business owners have little choice but to pass the increases on to their employees or drop the benefit completely.

A health plan option first introduced in 2004 offers some measure of hope. Health Savings Accounts, or HSAs, work in IRA-like fashion to cover out-of-pocket medical costs with tax-sheltered money. An HSA is an investment account funded by each individual, with optional contributions from your business. The accounts must be linked to an insurance plan that has a high deductible of, for example, $1,000 to $2,500 or more. Money from the HSA pays health expenses until the insurance kicks in.

Unspent funds carry over, so the accounts have the potential to accumulate significant balances over years of untaxed contributions and investment gains. And premiums on health plans with high deductibles are more affordable. If a business establishes a qualified high deductible plan, the employer contributions to a tax-favored HSA are exempt from payroll taxes, and the employee is not taxed either.

As medical costs soar, HSAs have become more popular among small businesses. Plan features include these:

- The annual contribution limit to an HSA matches the deductible on your qualified high deductible health insurance—up to $3,050 for an individual, and $6,150 for family coverage as of 2010. Amounts are adjusted annually to inflation. Current contribution information can be found at [www.treas.gov](http://www.treas.gov).
- The employer, individual or both can make contributions and each individual has control over the assets in their account.
- HSA account providers will generally be insurance companies or banks. If your business sets up the plan you will arrange for employee HSAs.
- To be eligible, an individual must be covered by a high-deductible health plan and must not be covered by other health insurance.

To find out about how HSAs work, visit the National Association of Health Underwriters’ Web site, [www.nahu.org](http://www.nahu.org). You’ll also find up-to-date information on regulatory changes and assistance with finding insurance firms and agents.
To learn more about human resources issues facing your small business, contact America’s free and confidential source of small business mentoring and coaching. SCORE is a nonprofit association of more than 12,000 business experts across the United States who volunteer as mentors. SCORE offers free mentoring and low-cost workshops. Go to www.score-rochester.org.

Dean L. Swanson
South East Minnesota SCORE
c/o Rochester Area Chamber of Commerce
220 South Broadway, Suite 100
Rochester, MN 55904
*Dean is a volunteer SCORE Counselor.